C1200-5

ROUNDUP

CAN AN EASTERN BILLIONAIRE CORRAL A HERD OF RESTAURANTS INTO ONE TEAM?

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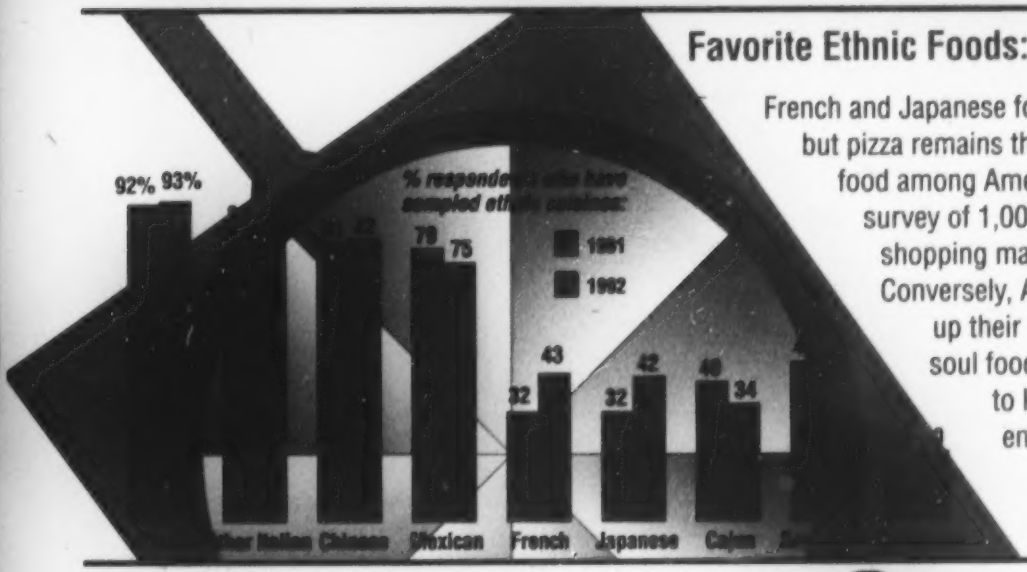
BUSINESS BAROMETER

Favorite Ethnic Foods: Some Surprises

French and Japanese foods are gaining favor, but pizza remains the most popular ethnic food among Americans, according to a survey of 1,000 consumers polled at shopping malls across the country. Conversely, Americans have turned up their noses at once-popular soul food and Cajun, and seem to have lost some of their enthusiasm for Mexican.

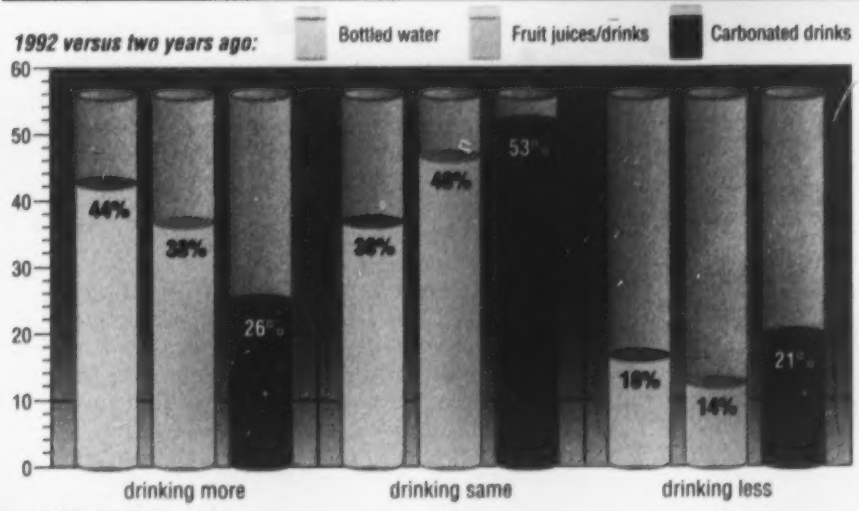


Source: The Research Advantage Inc.

Reducing Dining-Out Expenses: Consumers' Penny-pinching Ways

In an effort to keep their dining-out expenses down, in the last two years consumers have resorted to a number of cost-saving devices—from skipping desserts and coffee to ordering water instead of beverages.

Source: The Research Advantage Inc.



Charts by Peter K. Nicoberg

Beverage Behavior: It's More Prudent

Customers are drinking much more bottled water and fruit drinks and juices when dining out than they did two years ago. In contrast, carbonated beverages seem to have lost some of their fizzle.

Source: The Research Advantage Inc.

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Cover illustration by Stan Watts

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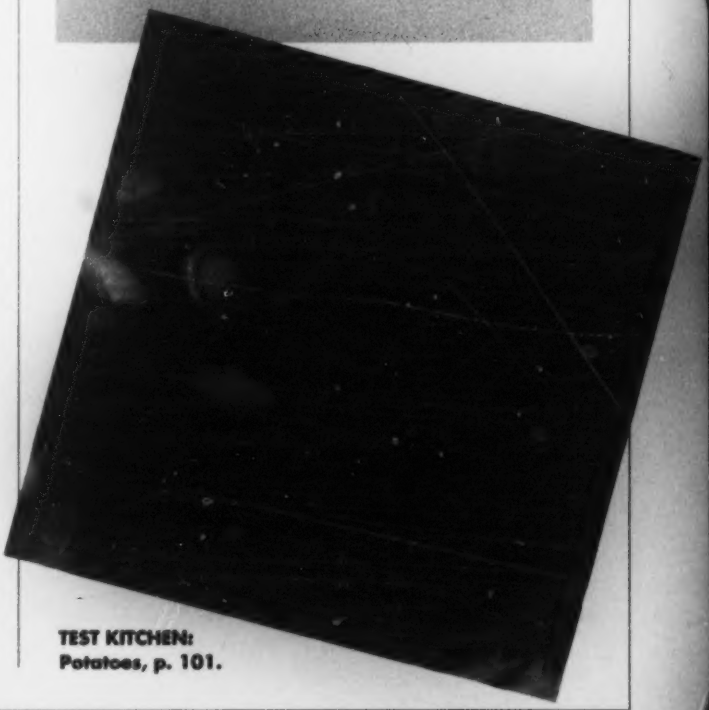
MAJOR FEATURE TW SERVICES. The operator of Denny's, Spartan Foodservice (the largest Hardee's franchisee), Canteen, Quincy's Steak Houses, and El Pollo Loco, is now under a new majority owner, KKR. *RB* investigates why it was necessary for powerhouse KKR to take over and what the change will mean for the company.

TEST KITCHEN PORK POSSIBILITIES. Chefs go whole hog, using other pork products—ham, sausage, rib, and shoulder cuts—in addition to the lean tenderloin to create economical presentations.

DRAFTS, CARAFES SPARKLING WINE. Holidays present the best opportunity to market sparklers, so it's time to gear up for promotions. However, many sparking wines offer such good price value that you can offer them anytime.

MARKET SEGMENT REPORT TAKE-OUT. This report will focus on drive-thru-only chains, kiosks, carts, and other limited-space and market alternatives.

EQUIPMENT I.Q. ON THE GO. And if you're looking to outfit for take-out, here's the low down on kiosks, carts, and all sorts of mobile equipment.



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CHICKEN

MARKET SEGMENT REPORT

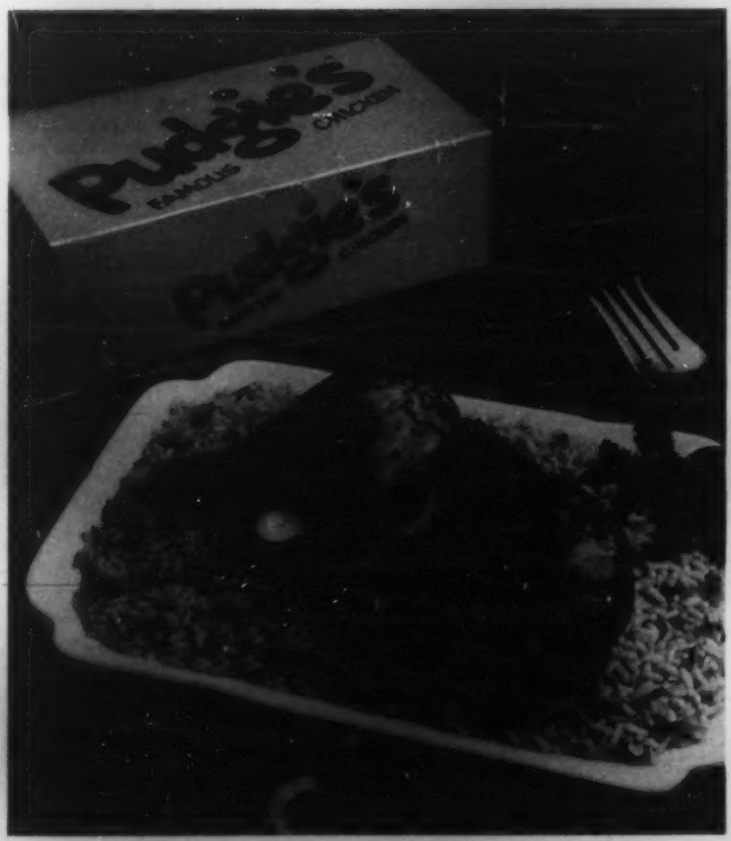
Each chain has its own claim to fame, and a niche for marketing the same bird.

By Rona Gindin

Food authority Brillat-Savarin once said, "Poultry is for the cook what canvas is for the painter." While it's true that chicken adapts remarkably well to an astounding variety of preparations, cuisines, and sauces, Americans still seem to like the bird best in its simplest forms: breaded and fried or marinated and roasted.

Restaurateurs find this encouraging, especially since consumers are eating more chicken these days than ever before. A juicy slab of steak may be what people order when out for that special anniversary dinner, operators reason, but chicken with a couple of simple side dishes is what folks want when they're picking up dinner for the family on the way home from the office.

Simply prepared chicken takes many forms—enough to allow chicken-only chains to distinguish themselves from one another. Although its menu is varied, KFC still does a bang-up business with its Original Recipe, while Pudgie's mainstay is skinless fried, and Popeyes' signature is a spicy Cajun-style. Koo Koo Roo's claim to would-be fame is marinated, skinless flame-broiled chicken, while Kenny Rogers Roasters boasts "It's the wood that makes it good." Linda's signature is a brick oven in the restaurant window, International Poultry Company's is a half dozen varieties of fresh chicken, Boston Chicken's is a rotisseried product, and start-up Hot Bird is sure that an easy-to-remember phone number will make it the delivery company of the decade.



Although it bills itself as a fried chicken chain, Pudgie's offers an alternative with its Flavor-Roasted Skinless Chicken.

Niches aside, every concept strives to draw a wide base of customers and ends up taking similar approaches in some areas. Some kind of non-fried chicken has appeared on most chicken restaurant menus. The product never outsells fried on menus that feature both, but it does bring in business that might otherwise be lost. "Pudgie's Flavor-Roasted Skinless Chicken

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MARKET SEGMENT REPORT

Americans prefer poultry in simple forms: breaded and fried or marinated and roasted

is never going to become the headliner," admits Steve Wasserman, the chain's president and CEO. But the product is doing well enough in test to keep it on the menu.

Delivery has been tested by nearly every chicken chain around, and the consensus is unanimous: Delivery only works for chicken restaurants that are dedicated to that service mode, never for those who treat it as an easy add-on business. For places with strong eat-in or take-out businesses, delivery proves far too expensive to operate in most areas. "Delivery is a very difficult concept, but we're working on it," Bojangles' president and CEO Dick Campbell explains. "We've got the operations issues resolved; now we need to resolve the economic issues. It's hard to make money on delivery."

Eager to expand across the nation, newer chains tend to speak of beating out industry giant KFC whenever discussing their plans. "If I located one of my stores across the street from KFC, I would take a tremendous portion of their business," claims Gregg Steinhauser, owner of International Poultry Company. "I have fresh poultry—it's never frozen, I offer quality, I do take-out and delivery, and I guarantee cleanliness."

However, the closest 8,000-plus unit KFC comes to having a real competitor in the chicken market is Al Copeland Enterprises, which owns the Church's and Popeyes chains, with a total of 2,000 units. Copeland is in the midst of hacking out a Chapter 11 bankruptcy plan, so the challenge to KFC, at least for the time being, is small. Chicken sandwiches on the menus of several hamburger- and roast beef-oriented fast-food chains pose a more immediate threat.

With all the chatter from start-up competitors, KFC Corp. seems to be holding its own. The Louisville, Ky.-based subsidiary of PepsiCo continues to grow. The chain added nearly 300 company and franchised stores around the world last year for a total of 8,480. Unit volumes increased by $20,000 to $669,000, and systemwide sales rose from $5.8 billion to $6.2 billion.

Nontraditional locations such as college and corporate cafeterias have become a major growth area. In most instances, contractors franchise a miniature KFC operation, such as a countertop merchandiser or a kiosk. KFC kiosks are likely to start showing up in airports by the end of the year, too. "We see a tremendous opportunity for growth in nontraditional units," says director of public affairs Richard Detwiler.

KFC is attempting several ways to increase per-store sales around the country. Four- to six-week runs of promotional products have been successful. Recently, short runs of Honey BBQ chicken and wings, Oriental Wings, and Hot Wings helped increase the frequency of customer visits, Detwiler reports. Some stores added Hot Wings to the standard menu, which features chicken varieties such as Original Recipe, Skinfree Crispy (added early this year in some markets), Extra Tasty Crispy, Hot & Spicy, and Kentucky Nuggets. Popcorn Chicken —bite-size fried dark meat— is the newest addition.

Just as Skinfree Crispy chicken plays to consumers in upscale markets, KFC is aiming to appeal to residents of African-American neigh-

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A pioneer in marinated, grilled chicken, El Pollo Loco's product has a definite Mexican accent.

CHICKEN

MARKET SEGMENT REPORT

borhoods with a new "Neighborhood KFC" concept. Located in Baltimore and Chicago, they feature colorful "Kente"-cloth uniforms, decors with African-American themes, and menu adaptations such as Mean Greens (collard greens).

Traditionally a counter-service fast-food concept, the company is testing a KFC Buffet variation in 175 Arkansas units. For $3.99 at lunch and $4.99 at dinner, customers can help themselves to unlimited portions of chicken, mashed potatoes, vegetables, salads, and desserts. Initial results indicate that per-store sales have increased, Detwiler says.

Delivery is another test concept at KFC. More than 100 restaurants are trying home delivery now and more will test it next year, but the trial "is growing slowly," Detwiler emphasizes. "It's very important to go into the right places, and some markets are not suited for delivery."

A division of Shoney's, Inc., Lee's offers four types of chicken, including skinless.

While working to increase same-store sales in domestic markets, KFC continues to expand aggressively overseas. The chain is already strong in the Pacific Rim—Japan alone has 1,000 units—and Europe is a new focus. This fall a new store in Hungary will be the chain's first in Eastern Europe. KFC operates in 63 countries.

At 11 years old, Pudgie's Famous Chicken, Ltd., has recently become an aggressive competitor in the fast-food chicken market. The Woodbury, N.Y.-based chain grew slowly and quietly until it began franchising in 1989; two years later, the chain had 90 restaurants open, franchise agreements for another 40 sold, and plans to open 500 new restaurants within three years. Started in a New York City suburb, Pudgie's is now expanding to Massachusetts, Illinois, North Carolina, New Jersey, Virginia, Maryland, Florida, and Texas.

Although Pudgie's markets itself as a fried chicken chain, its menu is far more extensive. Ribs, fried shrimp, fried clams, hot wings, chicken nuggets and strips, and side dishes such as mashed potatoes, rice, biscuits, rolls, and corn on the cob make for a lengthy menu.

Today, Pudgie's is test-marketing Gourmet Chicken Salad made from breast muscle meat and Flavor-Roasted Skinless Chicken, which has "done okay in test as a cold weather item," according to Wasserman.

Pudgie's has seating in a few restaurants and delivers from all stores. A prototype for a modular double-drive-thru unit represents the next step. Pudgie's, which is privately held, generates unit sales of $500,000 to $1 million.

Fledgling chain Koo Koo Roo is moving to set up shop all over the country in a short period of time, but meanwhile it is reformatting its concept. The Los Angeles-based company was a fast-food chain selling skinless, marinated, flame-broiled chicken and seven side dishes. This summer, it began converting all 12 stores to a concept closer to a casual-dining establishment.

Koo Koo Roo stores now sell three types of chicken (original, barbecue, and rotisserie), game hens, five chicken sandwiches (Italian, Mexican, Chinese, barbecue, and original) and several side and entree salads in addition to its original menu. Continental breakfast features bake-off muffins, bagels, and cinnamon buns. Kitchens have been expanded to accommodate future menu

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additions. Movable tables and chairs padded in primary colors replace pink booths and stationary furniture.

Koo Koo Roo's growth trail has been rocky. A group of fine-dining veterans started the concept with a Los Angeles store and began franchising quickly. In addition to California, stores are located in New York, Florida, Nevada, and Atlantic City, N.J. The company went public one year ago, and its stock price plummeted from $5 a share to $1.25; at presstime, it had inched back up to $2 per share. Founder Mike Badalian recently resigned to become a franchisee.

Undeterred, the company continues to plow ahead. "If we have 25 units this time next year, I'll be happy," says senior vice president Russell J. Ruscigno about growth plans. Average unit volumes are rising slowly, from $460,000 in 1990 to $490,000 in 1991. The new Atlantic City store alone will likely generate more than $2.5 million, Ruscigno predicts. Systemwide sales were $1.4 million in 1990 and $2.5 million in 1991. Checks average $6.75.

Two concepts more upscale in appearance and featuring extensive menus are making inroads on the East Coast—Boston Chicken and International Poultry Kitchen. Boston

The greatest competitive threat comes from outside, from other fast-food chains now marketing chicken

Chicken has quickly racked up 47 stores, plans to have 80 by the end of this year and predicts the opening of another 90 to 100 next year. Half the stores are franchised.

Boston Chicken, recently relocated from Boston to Naperville, Ill., features rotisserie chicken, pot pies, chicken salad, pasta salads, and 20 side dishes. About 70% of stores have 30 to 40 seats, though take-out represents a large portion of the chain's business.

A new investment group team led by vice chairman Saad Nadhir took over management of Boston Chicken last year. Founder George Naddaff resigned as chairman and CEO this summer and was replaced by Scott A. Beck. The group invested $12 million in Boston Chicken and is seeking an additional $30 million from investors and banks.

International Poultry Kitchen, in New York City, has perhaps the most extensive menu of the chicken chains, although a scaled-down version will appear in smaller units as the chain expands outside its Manhattan base. International Poultry Kitchen's take-out and delivery-only shops stock 70 items, including several varieties of chicken (among them skinless fried, teriyaki, and Santa Fe, with patents pending on new oat bran and whole wheat varieties), seven soups, and an endless array of side dishes. The company's fifth store is under development.

International Poultry Kitchen's current units are located in residential Manhattan neighborhoods, where heavy traffic, catering sales, and $15 to $20 average checks help per-store sales exceed $1 million a year. The scaled-down version will likely be opened in the city and the surrounding suburbs, according to owner Gregg Steinhauser. "We can limit the menu to only 20 items," he explains. As many as three ministores might be built in a year, and Steinhauser is "strongly considering franchising."

Two other concepts in the New York market are aiming for big business. Three-year-old Hot Bird, based in a yuppie neighborhood in Brooklyn, has plans to saturate the country with its take-out and delivery stores. So far, one company-owned and one franchised store sell marinated rotisserie chicken, ribs, baked potatoes, corn on the cob, Dijon coleslaw, and dill potato salad to the tune of about $300,000 each. A whole chicken with four side dishes runs $15.95 when delivered, $13.50 in the store. Checks average $15 for delivery and $9 in the store.

President Mike Weinberger says franchise development is in the works for New York's Westchester County, New Jersey, West Virginia, and North Carolina. All stores will have the telephone number 800-HOT-BIRD.

Weinberger credits his operating profit of $60,000 per store to an efficient operation that requires little labor or inventory. Only 34 items are stocked at

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CHART BY SHARI FANG

CHICKEN

MARKET SEGMENT REPORT

a Hot Bird, including paper goods, and the stores require one full-time employee. Part-time employees comprise the rest of the staff.

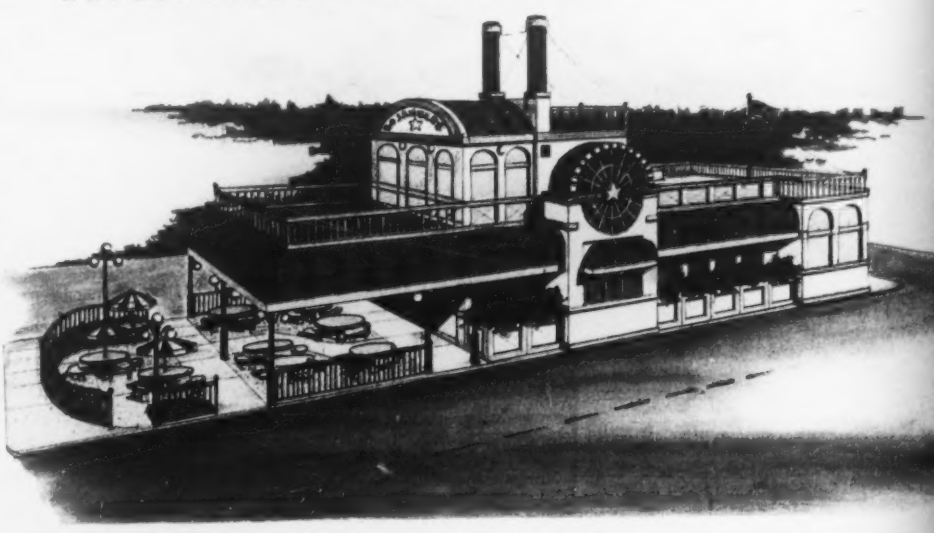
Empire Kosher Chicken Restaurants is taking an entirely different approach to both the chicken market and growth. Empire, a partnership between president Ezra Douek and Empire Kosher Poultry, features a variety of poultry dinners served cafeteria-style.

Each of Empire's three restaurants is decorated with carpeting, artwork, and flowers. Chicken is available flame-broiled, rotisseried, roasted, or fried; turkey entrees supplement the selection. Eat-in meals are served on china. A quarter-chicken dinner with two vegetables and a corn muffin costs $4.95. Take-out and delivery account for half of sales.

Empire's two company-owned stores are in New York City's Queens and Manhattan sections, and its sole franchised location is in Cleveland. Through company and franchised units, Empire hopes to move into additional markets with active Jewish populations, although Douek emphasizes that only a limited percentage of customers are Jews who regularly follow kosher dietary laws. Following Jewish law, the restaurant is closed on Saturdays and Jewish holidays.

Although admitting he "would like 200 restaurants," Douek insists he will sell franchise agreements for only one restaurant at a time. He says he's looking for hands-on operators.

Douek will not reveal sales information, but indicates that his 72-seat restaurants generate sales "above average" compared to competitors. "We work only five-and-a-half days a week and, compared to any franchised restaurant, we do better," he claims.



Bojangles' drive-thru riverboat prototype unit will sell the full menu.

Right outside New York City, Linda's Flame Roasted Chicken is aiming to make a splash in New Jersey. Restaurant Associates veteran Peter Weissbrod and his wife Linda opened their first restaurant in West Caldwell last November, will open a second soon, and have a third planned to open by the end of the year. The Weissbrods are looking into franchising and plan to build five additional units in 1993.

Linda's Chicken features rows of poultry flame-roasting in a brick hearth in the windows of its strip center locations. Customers order quarter to whole chickens, dinner packs, pot pies, salads, and soup at a counter, then take the food home or eat it in the store's dining room. The first unit has 65 seats; the second will have 40. Side dishes include roasted sweet potato, "smashed" potatoes and gravy, coleslaw, and pasta primavera. Checks average $5.70.

Unfazed by newfangled start-ups, several regional chains, most in the South, continue to operate quietly in their markets. Lee's Famous Recipe Chicken, a subsidiary of Nashville, Tenn.-based Shoney's, Inc., operates and franchises 281 fast-food chicken restaurants in 20 states, most concentrated in Kentucky and Ohio.

Lee's features up to four varieties of chicken in each store: Pressure-Cooked Famous Recipe, Crispy Plus (mildly spicy), Skinless Fried, and Oven-Roasted, which accounts for 10% of sales. Lee's menu also includes 10 vegetables and chicken breast strips.

Looking to increase variety, Lee's recently added Hot Inferno Wings and Sweet Wing Things, a barbecue-flavored product. Purchased mostly as appetizers and snacks, the products are "doing pretty decently," reports vice president of marketing Harry Klapheke, but "they're not butt-kickers by any means."

Desserts are being rolled out chain-wide now. Brownies, muffins, strudel and cream horns have replaced the chain's prepackaged pies. "We wanted a high-quality dessert program to complement our menu," Klapheke explains, noting it is too early to tell if the new desserts will help raise check averages.

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Still segment leader, 8,000-plus unit KFC has systemwide sales of $6.2 billion

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While enhancing its menu inside the stores, Lee's is freshening up its stores' exteriors, as well. As part of an image enhancement program, Lee's is in the process of changing roofs from red to charcoal, adding neon to the exterior, changing outside walls from white to beige, and replacing signs with new logos that incorporate the word Lee's (only some units had it before) and eliminating the word "Fried." Part of Lee's image enhancement effort included booting unsuccessful and poorly run units from the system, meaning 20 restaurants closed over the past year as 20 have opened. Thirty new stores are planned for 1993. In 1990 and 1991, unit volumes averaged $520,000 and systemwide sales topped $145 million.

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Atlanta-based Chick-fil-A continues to fill out existing markets through three relatively new avenues of growth. Specializing in a fried, boneless breast of chicken sandwich, Chick-fil-A owns 465 restaurants in 31 states. Licensees run most stores. Chick-fil-A has traditionally set up shop in malls, but new growth has predominantly been in freestanding Chick-fil-A and Dwarf House restaurants, as well as in nontraditional locations such as colleges.

Since 1989, Chick-fil-A has opened more than 40 freestanding restaurants under this name, a majority in Atlanta; Charlotte, N.C.; and Valdosta, Ga. Freestanding restaurants have the typical Chick-fil-A menu, available at the counter (the dining room has 90 seats) and from a drive-thru window.

The company's Dwarf House concept features two restaurants in one freestanding building: a typical Chick-fil-A fast food/drive-thru restaurant on one side; a table-service restaurant with a more extensive menu on the other. The table-service menu includes made-to-order breakfast, Hot Brown (a chicken casserole), salads, steaks, chops, and more. Standard Chick-fil-A items sell at the Dwarf House for the same price as in fast-food units. The six 150-seat Dwarf Houses, all in Atlanta, are decorated in typical Chick-fil-A red, brass, and oak; however, china plates, real glassware, and stainless utensils are used and decor is more upscale.

Looking for yet more outlets for its product line, Chick-fil-A is working with foodservice contractors at several colleges, who have uniformed employees sell the chain's core products from a

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MARKET SEGMENT REPORT

miniature unit. These licensing agreements have been so successful that the company is now looking into corporate dining rooms and, through a catering arrangement, secondary schools.

In its standard locations, Chick-fil-A now sells Grilled 'n Lites in addition to its traditional menu items. Rolled out in March, Grilled 'n Lites are marinated, chargrilled chunks of breast tenderloin served on two skewers for $1.95. The chain markets Grilled 'n Lites as having fewer than 50 calories per skewer and only 16% of calories from fat. Early results indicate that Grilled 'n Lites bring in a new, health-conscious consumer.

Chick-fil-A's consistent, conservative approach to doing business continues to serve the company well. With an average check of $3.47, restaurants pulled in an average of $687,000 in 1991, up $6,000 from a year earlier. Systemwide sales rose 11% in 1991 to $324.5 million from $293 million a year earlier.

Bojangles' Famous Chicken & Biscuits of Charlotte, N.C., is trying to make a comeback under the guidance of former KFC executive Dick Campbell. Down from a high of 335 units to only 175 units today, the fast-food chain specializing in spicy fried chicken is on the upswing once again. In fact, privately held parent BJ Acquisition Corp. plans to have 350 Bojangles' up and operating in the Carolinas, Virginia, and Georgia within five years.

Hot Bird stresses an easy-to-remember phone number.

Campbell has taken several aggressive steps toward reviving the chain: First, he is buying back a number of franchised units, including 27 from the franchisee who controls most of South Carolina. "When Horn & Hardart owned Bojangles'," he explains, "it awarded exclusive development rights to franchisees, but those franchisees weren't required to build beyond a nominal amount of stores. We will build more stores. Plus, we make more money operating company restaurants than we do franchised ones." Campbell said he'll sell only two or three franchise agreements a year, and those will go to potential multi-unit operators.

Second, Campbell hired an in-house construction crew to remodel every acquired unit. Each restaurant is made to replicate an original Bojangles' "very New Orleans-type look," Campbell says. Remodels also receive new equipment and a human resources program.

Third, Bojangles' opened its first double-drive-thru unit in May, and sales are projected to top $1 million during the first year of operation. Campbell plans to build a 1,000-sq.-ft. prototype, which looks like a riverboat and sells the full Bojangles' menu, in small communi-

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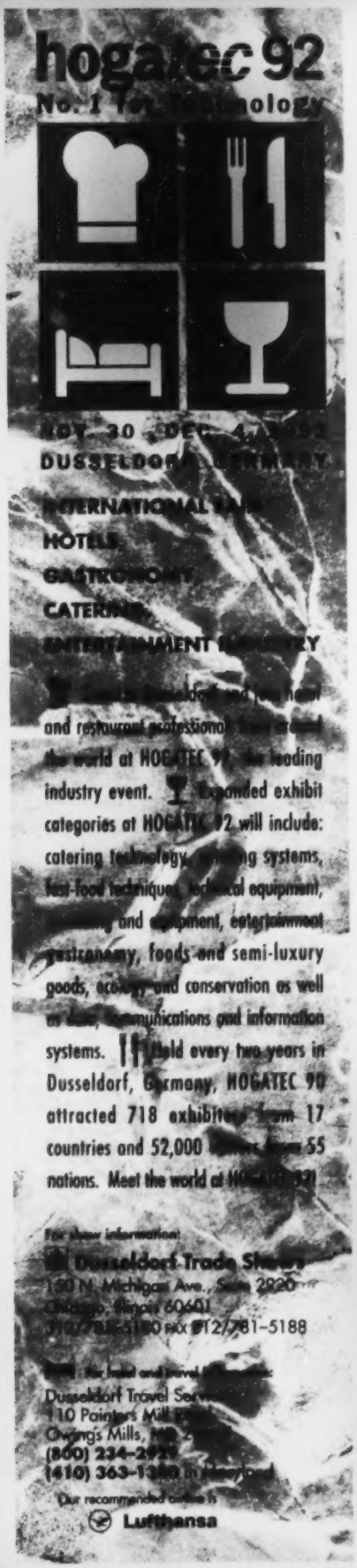

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CHICKEN

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ties, on odd lots, and in resorts.

Fourth, menu additions are rampant. Buffalo Bites are boneless, skinless, marinated chicken pieces. Bo's Cajun Roast, an oven-roasted, skinless, bone-in product, is in test, and a chicken burger is under development.

Campbell's developments have been paying off so far. Restaurants brought in an average of $923,000, a rise from $780,000 a year earlier. Systemwide sales rose from $123 million in 1990 to $127.9 million in 1991, and are expected to reach $146 million in 1992. Checks average $3.70.

Despite the promising future for many chicken chains, some are still working to find the right concept. Cajun Joe's, the Milford, Conn.-based cousin of Subway, has pulled back considerably in the past year to evaluate its options. The all-franchised chain had 150 restaurants last year and is down to 90 today.

KFC's new Honey BBQ product.

Over the last few months, Cajun Joe's tested changing its name to Cajoe's and found the change detrimental. "We found that once there's a certain level of name recognition, it's not a positive thing to change the name," reports president Dick Cromwell.

A test of whole roasted chicken, however, proved a good idea. Ribs will be added to Cajun Joe's menu soon, and side orders such as rice and mashed potatoes round out the fast-food chain's offerings. Most Cajun Joe's seat from 20 to 30. A "handful" deliver.

Like Cajun Joe's, Irvine, Calif.-based El Pollo Loco is looking to refine its image before continuing aggressive expansion. A subsidiary of TW Services, El Pollo Loco is a chain of 204 company-owned and franchised fast-food res-taurants specializing in marinated, flame-broiled chicken. Most stores are in the Los Angeles area. Last year was rough for the chain, as same-store sales plummeted 10.8% to $808,000, average checks dropped 4% to $6.87 and revenues fell 3.9% to $100.9 million.

Steak fajita tacos and burritos were added to the menus. "We're repositioning the chain away from chicken and more toward being a quick-service grill concept," explains director of marketing Norman McKinnon. "So far these items have taken on a respectable percentage of the menu mix."

El Pollo Loco is testing delivery, and is also testing the sale of chicken burritos to three high school cafeterias, which resell the sandwiches, and a limited menu in a food court at California State-Northridge.

Whether at college, at school, at work, or on the highway, Americans will soon be able to pick up a chicken meal at a moment's notice. **RB**